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July 16, 2007

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Hon. Tina Wolfe
Arizona Corporation Commission
Docket Control
1200 Washington Street
Phoenix, AZ 85007

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RE: Closing Brief; DOCKET No. WS-04235A-06-0303

Dear Judge Wolfe:



I appreciate the opportunity to provide a closing brief in this matter.

As presented during the hearing on this matter, the Arizona Revised Statutes (ARS 40-361.A) state that charges demanded by a public service corporation for any commodity or service shall be just and reasonable.

The fact in this matter is that the proposed rate increase is not reasonable by any standards – whether considering the proposed rates from Staff or from the Company.

First, residents moved into the development with one of two assumptions:

- 1) Water / sewer rates would be those currently in effect (150% less than the proposed rates)
- 2) Water /sewer rates would be those specified in the CCRs for the community (104% less)

Neither scenario provides an Increase that could be deemed 'reasonable' by customers of the utility.

Second, the impact of such an unreasonable increase in rates will have an unreasonable impact on Utility Source customers. With an average household income in Coconino County of \$40,000 (per the US Census), the rate increase would require an additional 2.43% of our NET income to go toward the water bill. For consumers already bearing the unreasonably high cost of real estate in our region, an additional 2 1/2% is significant. Bellemont is a relatively low-income community – making the exorbitant increase all the more unreasonable.

Third, the proposed rates are unreasonably high relative to our surrounding area. In fact, the proposed water rates are 179% higher than the City of Flagstaff, 135% higher than the state average, and 61% higher than the Coconino County average. The proposed wastewater increase would put rates at 103% higher than the city, 60% higher than the state average, and 52% higher than the county average.

In addition to the proposed rates being *unreasonable*, there are other important factors to consider. In addition to ensuring the long-term sustainability of Utility Source, the ACC also has the responsibility of protecting consumers forced to purchase a service from this regulated monopoly. The ACC web site states:

'Generally, the Commission tries to balance the customers' interest in affordable and reliable utility service with the utility's interest in earning a fair profit.'

I ask you to balance our interest with the profit expectations of Utility Source. There is no question that a profitable Utility Source is crucial for our community. However, testimony during the

hearing showed Utility Source to have an operating margin in excess of 40% - given Staff's or the Company's proposed rate structure. Mr. Michlik testified that an average operating margin range was closer to 15-20%. Given that the utility is profitable, it seems more reasonable to wait until the additional customer base is added and give the utility more time to achieve operational efficiency prior to establishing a fair return on their investment.

Finally, despite the fact that the entire objection of an intervener is based on the legal obligation for utility rates and rate increases to be 'reasonable', neither Staff nor the Company even acknowledged whether their proposed rates were reasonable from the consumers' perspective. 100% of the focus has been on the reasonable rate of return for the Company.

In closing, I sincerely hope that you agree that:

1. When compared to the City of Flagstaff, State of Arizona, and Coconino County, the proposed increased water rates are not reasonable, and therefore not legal
2. Should the proposed increase take effect, the impact on many residents of our community will be severe
3. Utility Source has a gold mine in the form of an extremely high-producing group of wells. The water capacity alone is assurance of the utility's long-term sustainability
4. We, as customers of a regulated monopoly, are counting on the ACC to balance ensuring the profitability of the utility with protecting us from unreasonable utility rates
5. No evidence was presented during this matter to support the legal obligation of the utility to provide service at 'reasonable' rates

Sincerely,



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